

Student Assistance the American Way

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About the Author

Lawrence E. Gladieux is an independent consultant in the DC metropolitan area, and serves on the Educational Policy Institute's Research Associate Group. For over 25 years, Gladieux directed the Washington Office of the College Board, and gained a reputation for reliable, independent policy analysis on issues related to high school to postsecondary transition, college affordability, and equal opportunity for higher education. He has written articles for the *Chronicle of Higher Education*, *Academe*, *Change*, *Journal of Student Financial Aid*, *Higher Education Management*, and the *College Board Review*. His opinion pieces have been published in such papers as the *New York Times*, *Washington Post*, and *LA Times*.

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This paper was originally prepared for and presented at a conference, "Student Aid Lessons from Abroad," sponsored by the Canada Millennium Scholarship Foundation and the Canadian Association of Student Financial Aid Administrators, Toronto, Canada, September 21, 2001.

Citation:

Gladieux, Lawrence E. (2003). *Student Assistance the American Way*. Washington, DC: Educational Policy Institute, Inc.

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Introduction

In all countries, the costs of higher education must be borne in some combination by taxpayers, students and their families, and private donors. But nowhere is the cost burden so widely distributed among public and private sources as in the U.S., and no other country approaches our crazy quilt of prices, subsidies, and aid programs.

The administration of U.S. student financial assistance reflects the untidy American tradition of pluralism and federalism. Responsibility and decision-making are shared and scattered among national, state, and local governments as well as private authorities. The result contrasts with more unitary systems characteristic of many other countries. It is no doubt curious to non-American observers. Maureen Woodhall, a British expert on comparative student support systems, calls ours the “most bewildering” in the world. At times we Americans find the workings of our system curious and bewildering as well.

A Huge Investment

American higher education serves more than 15 million students, 13 million at the undergraduate level and the balance in post-baccalaureate graduate and professional programs. These students attend about 4,000 degree-granting institutions, which vary widely in size, mission, selectivity, geography and governance. More than half the colleges and universities are private non-profit or for-profit, but over three fourths of the enrollments

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are in public two-year and four-year institutions. In addition, 1,500 or so for-profit schools provide postsecondary career and certificate training.

The national investment in higher education, including instructional costs plus student living expenses, totals over \$250 billion annually. American taxpayers supply more than two-fifths of this total, students and families pay close to one-half, and the rest comes from assorted private gifts and endowments.¹



Taxpayer support comes primarily through the 50 state governments, mostly in the form of operating support to public colleges and universities, with some direct aid to students to help meet their costs of attendance at both public and private institutions. The federal government contributes less than 15 percent of institutional operating revenues, but federal support is strategic in two areas – sponsored research and student financial aid.

Do federal and state governments coordinate their policies toward higher education? There is little conscious meshing of funding purposes and patterns between the two levels of government. When it comes to higher education, federal and state governments are like ships passing in the night. The “feds” do their thing in student financial aid and research; the states configure, finance, and govern their systems of public higher education, each in their own fashion.

A System of Second and Third Chances

Over three fourths of American young people graduate from high school, generally at age 17 or 18, and another 10 percent or so receive their high school diploma or equivalency by their late 20s.² Three quarters of high school seniors go on to higher studies. Within five years of entering postsecondary education, half receive some type of degree or certificate and one-quarter receive a bachelor’s degree.³ Many students, however, stretch out their education, study part-time, balance study with work and family responsibilities, attend intermittently and attend more than one institution before graduating.

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The openness and accessibility of American higher education is unique in the world, extending multiple opportunities for training, retraining, and advancement. As a society, we place a large value on flexibility of enrollment, allowing students to move in and out of the postsecondary system over a lifetime.

Still, chances of a college education remain sharply unequal in the U.S. As in virtually every country of the world, participation in higher education — rates of entry and completion, as well as type and prestige of institution attended — is closely associated with socio-economic status. Strategies to close these gaps in the U.S. focus on outreach and strengthening academic preparation for low-income and minority students, as well as making higher education more affordable.

In turn, to make college affordable, we have taken two approaches historically. The first is based on the principle of low tuition, keeping prices low for all who might aspire to enroll. The second approach emphasizes the principle of ability to pay: setting tuition and fees closer to the costs of providing instruction, while expanding financial aid awarded according to the student's need.

Prices and Financial Aid

As a consequence of these two competing principles, the published price of a college education in the U.S. is extremely variable, from near zero tuition at some community colleges to more than \$30,000 at some elite private colleges and universities. In 2001-2002, average undergraduate tuition and fees ranged from \$1,738 in two-year public colleges to \$17,123 in private four-year institutions. Posted tuition usually does not include room and board, transportation, books, supplies, and other education-related expenses such as laboratory fees. At the most expensive institutions, a full student budget may exceed \$40,000.

The College Board's annual report, *Trends in College Pricing*, tracks tuition charges, includes sample budgets, and analyzes the growth of college expenses in relation to the Consumer Price Index (CPI) and family income levels. Since 1980, tuition and fees have been rising considerably faster than both the CPI and median family income.⁴

A companion report published by the College Board, *Trends in Student Aid*, tracks the amount of assistance in the form of grants, loans, and work-study to help students meet the price of attendance. Almost \$75

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billion was available from federal, state, and institutional sources in 2000-2001, discounting some portion of the price for 55 percent of undergraduate students, 72 percent of full-time undergraduates, and 60 percent of graduate and professional students.⁵



Goals and Models

The Servicemen’s Readjustment Act of 1944, or GI Bill of Rights, stands as the most important education legislation of the 20th century in the U.S. In providing college education benefits for several million veterans returning from World War II, it demonstrated to skeptics in both government and academia that higher education could and should serve a much wider segment of society. Ever since, the example of the GI Bill has inspired efforts to broaden access to higher education. Its most direct legacy today is the Pell Grant program, which was touted at its inception in 1972 as a “civilian GI Bill” or a “GI Bill for everybody.”

Federal and other student aid programs of the past several decades have had a variety of overlapping purposes, ranging from manpower objectives (such as increasing the supply of teachers or engineers) to rewarding merit and promoting academic achievement. But the transcendent mission has been to remove barriers to individual opportunity—to help Americans pursue higher education, regardless of their wealth, income, or social origins. And this quest has generally meant financial assistance that is targeted to students and families with the least ability to pay.

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Reliance on Borrowing—and Work

Yet there has been a sea change in the financing of students in the past 20 years. The aid students receive increasingly comes in the form of borrowing. Today, loans account for almost 60 percent of total available aid. In 2000-2001, federally-sponsored programs generated more than \$38 billion in student and parent loans, almost five times the size of the Pell Grant program that was meant to be the system's foundation.

The original Higher Education Act of 1965 called for need-based grants for the disadvantaged, while helping middle-class families with government-guaranteed but minimally subsidized bank loans. Today many students are having to go into debt who were never expected to borrow when these programs were created. Students most at risk—low-income students, students in remediation, students taking short-term training with uncertain returns—increasingly must borrow to gain postsecondary access.

Effects of the shift to loan financing are difficult to ascertain, but the prospect of debt probably deters some less advantaged young people from considering postsecondary education. There is also evidence that financial aid in the form of loans is less effective than grant aid in helping students to stay in college and get their degrees. And there are consequences for society that must be considered as rising college costs are increasingly financed by student loans. The growth in debt may skew students' professional and career choices, discouraging college graduates from entering teaching and other areas of social need that are relatively low-paying.

This said, most student borrowers assume manageable levels of debt and are making a sound investment in their future. Most will be able to repay, especially if they have received their degree or certificate. The federal student loan cohort default rate declined from 22 percent in 1990 to six percent in 2000. Yet policy makers continue to worry about the borrowing trend, and they should, for the reasons noted above. Some students get in over their head, depending on their field of study and future income prospects in an uncertain economy. And student debt levels are rising, especially with the growing availability of private loans and commercial credit cards.

At the same time, a more common financing strategy that students use is work, which can be as problematic as loans. One third of all U.S. undergraduate students, including those enrolled in four-year as well as two-year institutions, borrow in a given year. By contrast, 80 percent of undergraduates work. Generalizations are hazardous as individual circumstances vary widely. Yet survey analysis suggests that many of these

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students work long hours, often to avoid borrowing, and doing so may not be in their academic or economic best interests. For low-income students without sufficient grant aid, the financing choices are especially tough. Borrowing may be a pitfall, but working too much lengthens time to graduation and may jeopardize finally getting a degree.⁶

Erosion of Need-Based Policies

While students are borrowing as well as working more, the focus of federal policy has shifted over time from helping students who “but for such aid” would not be able to attend college, to relieving the burden for those who probably would go without such support. The anti-poverty origins of the 1965 Higher Education Act have faded into history as eligibility for federal student aid has been extended up the economic ladder.

This development has been double-edged. On the one hand, the broadening of eligibility has popularized student financial aid with the middle class and thus strengthened the programs’ political base. The stronger political foundation resulting from the Middle-income Student Assistance Act of 1978 probably helped to protect these programs from what could have been worse cutbacks in the early 1980s. On the other hand, the shift has diluted the federal emphasis on subsidies for low-income students and led to the predominance of loans in the mix of available aid.

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Changes in federal need analysis brought about by the 1992 reauthorization of the Higher Education Act produced another expansion in middle-income eligibility, inflating officially recognized need by several billion dollars, but with no corresponding increase in funds. The result has been to spread available aid more thinly, shifting scarce aid dollars up the income scale, at the expense of less advantaged students.



The movement of federal policy away from need-based principles is reflected most dramatically in the tuition tax benefits enacted as part of the Taxpayer Relief Act of 1997. The so-called Hope Scholarships and Lifetime Learning Tax Credits primarily benefit middle- and upper middle-income taxpayers who incur tuition expenses for postsecondary education. Along with college savings incentives and related provisions of the federal tax code, these benefits are estimated to cost the U.S. Treasury nearly \$60 billion dollars in lost revenue over the next five years, 2003-2007, little of it helping the poor.⁷

Likewise, many state governments are enacting tuition tax credits and deductions, and are investing more heavily in non-need merit scholarships as well as college savings and prepaid plans oriented to middle- and upper-income families. And the colleges themselves are diverging from ability-to-pay principles, “leveraging” financial aid to maximize net tuition revenue.

The College Savings Movement

Spurred by federal tax incentives and widespread anxiety about the tuition spiral, nearly all 50 states have created so-called 529 plans that encourage parents to prepay the costs of their children’s college education and/or set money aside in an investment fund dedicated to meet such future expenses. Earnings and disbursements from these plans (dubbed “529” for the section of the Internal Revenue code that defines “qualified tuition

programs”) are now largely exempt from federal and state taxes. Some states also offer a tax deduction for the initial investment.

Stimulating family savings for college is a good cause, and the college savings movement is booming with the development of the state-sponsored as well as commercial plans. But these plans benefit only those families who have sufficient discretionary income to put money aside for the future, and sufficient taxable income to benefit from the related tax breaks. Subsidies for savings are not much help to those who can barely make ends meet.

Ongoing Issues of Delivery and Administration

Student aid delivery in the U.S. is enormously complex. It is driven substantially by federal legislation and regulations, but at the same time is decentralized. Campus administrators play the pivotal role in “packaging” aid for each student. Below are some of the dimensions of complexity that we wrestle with in the U.S. system.

Multiple sources, programs, forms, and rules. About three quarters of the available student aid is generated by the federal government, through direct appropriations or loan guarantees. But the 50 states, institutions, and a variety of private agencies also contribute, not to mention a couple thousand banks that are involved in loan financing (see below). Many sponsors use the federal form (the “FAFSA”) for analyzing student/family financial need, but most have their own requirements and procedures as well. Everyone favors simplifying the process for students, families, and administrators, but consensus on how to do so is elusive.

Determining financial need. While the commitment to need-based principles may be eroding in public policy and institutional practice, the great majority of aid continues to be awarded in some relation to financial need. And what such a system requires is complicated judgments on a series of sensitive, subjective questions.

How much should, can, and will parents contribute to their children’s education? How much should families be expected to sacrifice and how steeply should the parental share rise with income? Under what circumstances should it be assumed that the parent no longer has responsibility? How should disbursements from college savings and prepaid tuition plans be treated in need analysis? And how much should the

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student, whether deemed dependent or independent of parental support, be expected to contribute out of earning and borrowing?

These are questions dealt with on a limited basis in some other countries. Under the American system we confront these questions and their inherent complexity on a vast scale.

Quality control. There is a universe of more than 5500 institutions, representing a whole spectrum of education and training opportunities beyond high school, at which students can qualify for federal and other sources of financial aid. The resulting problems of regulation are, again, on a vast scale. Quality control with respect to student aid has at least two dimensions: First, what is the quality of education that students and taxpayers are investing in? Second, is eligibility being determined accurately? Are students and parents providing truthful and reliable information when they apply? We have built an application and verification process that almost rivals the federal income tax system in its intricacy and detail.

Financing student loans. Another source of complexity and controversy is the way we have chosen to generate student loans. Loans to students are made primarily through private banks, with the government providing guarantees and subsidies to assure the flow of capital. What level of subsidy is required to keep private banks participating? Are private lenders making too much money?

When President Clinton came to office 10 years ago, he called for sweeping reform, getting banks out of the program and centralizing the process of raising and dispensing capital for student loans. The compromise that resulted from the Clinton reform effort is a direct federal loan program that now competes with bank-based, government-guaranteed loans. In addition, since Congress has not raised federal borrowing limits for students since 1992, there is a growing market for private, non-government backed loans for higher education.

Is the Process Itself Becoming a Barrier to Access?

There may be too many programs, and there is surely too much red tape – to the point that the system itself may be a barrier to access. The “student aid game” is getting more sophisticated – but not necessarily more transparent, understandable, or equitable.

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Does Student Aid Make a Difference?

Policy makers want to know, how effective are financial aid programs? Research does not produce clear-cut answers. Surely the massive investment in student aid has helped to expand postsecondary enrollment and attainment and achieve the diversity of today's student population in the U.S. But gauging the impact of financial aid in general, much less particular programs, is far from cut-and-dried. It is difficult to separate out the influence of aid policies from other factors that determine enrollment and success in higher education.

The Coming Tidal Wave of Students

One thing we know for certain: The new demography of college students over the next 15 years will require financial aid in much greater proportions to sustain postsecondary access. The Census Bureau projects that there will be five million more 18-24 year-olds in the year 2010 than there were in 1995, an increase of more than 20 percent. The country is already experiencing the front end of this expansion in the potential pool of high school graduates and college students. By one estimate there will be 2.6 million more undergraduates on campus in 2015 than there are today, a product of the baby boom echo, rising immigration, and more adult learners.⁸

This cohort will look considerably different from previous generations of college-age students. It will be ethnically much more diverse, and the fastest growth will come from groups in the U.S. that have traditionally been poorer than the general population, and more educationally at-risk. As a society, we will need a much wider and deeper commitment to reaching, motivating, and preparing low-income students for college – and insuring that price is not a barrier.

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Endnotes

¹ Estimates based on data from U.S. Department of Education, *Digest of Education Statistics 2001*, and Lawrence E. Gladieux and Arthur M. Hauptman, *The College Aid Quandary: Access, Quality, and the Federal Role* (Washington D.C.: The Brookings Institution, 1995).

² U.S. Department of Education, *Digest of Education Statistics 2001*.

³ U.S. Department of Education, *Descriptive Summary of 1989-90 Beginning Postsecondary Students: Five Years Later*.

⁴ The College Board, *Trends in College Pricing 2001* (New York: The College Board, 2001)

⁵ The College Board, *Trends in Student Aid 2001* (New York: The College Board, 2001), and U.S. Department of Education, National Postsecondary Student Aid Study.

⁶ Jacqueline E. King, *Crucial Choices: How Students' Financial Decisions Affect Their Academic Success* (Washington, D.C.: American Council on Education, 2002).

⁷ Source: Fiscal Year 2003 Federal Budget, Analytical Perspectives, Table 6-5: Outlay Equivalent Estimates for Tax Expenditures in the Income Tax, pp. 109-112. <http://w3.access.gpo.gov/usbudget/fy2003/pdf/spec.pdf>.

⁸ Anthony P. Carnevale and Richard A. Fry, *Crossing the Great Divide: Can We Achieve Equity When Generation Y Goes to College?* (Princeton, NJ: Educational Testing Service, 2000).

We believe...

...that education is the fundamental lever for improving social and economic conditions for individuals and nations. Buoyed by a solid foundation of knowledge and understanding, our youth can overcome barriers and stereotypes that fall in the way of human progress. In a truly global society, this knowledge is critical to the development of a population that is cognizant of our collective strengths and weaknesses, underscored by a compassion for all.

Unfortunately, educational opportunity is not equal or equitable. Students and families from the lower rungs of the economic ladder do not frequently enjoy the same opportunities as other students. Only through a concerted and consistent effort on behalf of policymakers, practitioners, communities, and families can we ensure that all youth receive the opportunity to develop to their fullest potential.

At EPI, our research is aimed at facilitating the expansion of educational opportunity for all students, focusing on students with the least support and the most need, through a program of high-level research and analysis on issues that make a difference. Through our efforts, we hope to enlighten policy debates in the U.S., Canada, and beyond, in hopes that policymakers will improve public policies and educational practices to enhance the aspirations, motivations, and skills of our youth and truly open the doors of opportunity for all.



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